



VET GAZETTE

January – March 2008

U.S. Small Business Administration Office of Veterans Business Development

409 Third Street, SW
Washington, DC 20416
202-205-6773
202-205-7292
www.sba.gov.vets
janet.moorman@sba.gov

January-March 2008
Volume #1 Issue 2

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For More Information

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Internal Revenue Service – Choosing a Tax Advisor

You're starting a small business. Like many people, you may find that, with all your new responsibilities, you need assistance with your taxes, and you may decide to hire a professional tax preparer – someone with experience preparing tax returns for businesses like yours. There are many types of tax preparers who may be qualified to help you. Enrolled agents, tax attorneys and certified public accountants are all professionals with expertise in federal taxes. Before selecting a person or firm to handle your business, ask a few questions to see if they offer what you are looking for. Some questions to consider are:

-  **Experience:** Has that person worked with businesses similar to yours in size and type? Is he or she familiar with your particular line of business?
-  **Services:** Does the tax professional offer electronic filing – the safest and most efficient way to file your return?
-  **Price:** What service does that person offer for the fee he or she is quoting? If the IRS examines your return, what is that person's policy on assisting you?

References: Ask for a list of clients that you may contact.

Calendar Year vs. Fiscal Year

A year is a year, right? Yes and no. Different types of businesses may use different types of “tax years” when it comes to figuring their taxable income. A calendar year runs from January 1 through December 31. Generally, anyone can adopt a calendar year for his or her tax returns. In some cases, you may be required to adopt a calendar year. Some businesses, however, have “seasons” that don't follow the traditional calendar. If your business will have such seasons, you may be eligible to use a fiscal year that ends on the last day of a month other than December. Generally, whether you choose a calendar year or a fiscal year, you must use it on your first tax return and for all subsequent tax returns unless you get IRS approval to change your tax year. You can request a change in your tax year by filing Form 1128, *Application to Adopt, Change or Retain a Tax Year*.

For more information on tax requirements for small businesses or the self-employed, visit the IRS website at www.irs.gov.

Self-Employment Tax

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and

Medicare withheld from the pay of most wage earners.

You figure SE tax yourself using Schedule SE (Form 1040). Social security and Medicare taxes of most wage earners are figured by their employers. Also, you can deduct half of your SE tax in figuring your adjusted gross income; however, wage earners cannot deduct social security and Medicare taxes.

SE tax rate - The self-employment tax rate is 15.3 percent. The rate consists of two parts: 12.4 percent for social security (old-age, survivor and disability insurance) and 2.9 percent for Medicare (hospital insurance).

Maximum earnings subject to SE Tax. Only the first \$94,200 of your combined wages, tips and net earnings in 2006 is subject to any combination of the 12.4 percent social security part of the SE tax, social security tax or railroad retirement (tier 1) tax.

All your combined wages, tips and net earnings in 2006 are subject to any combination of the 2.9 percent Medicare part of the SE tax, social security tax or railroad retirement (tier 1) tax.

Fiscal year filer -If you use a tax year other than the calendar year, you must use the tax rate and maximum earnings limit in effect at the beginning of your tax year. Even if the tax rate or maximum earnings limit changes during your tax year, continue to use the same rate and limit throughout your tax year.

Self-employment tax deduction- You can deduct half of your SE tax in figuring your adjusted gross income. The deduction only affects your income tax; it does not affect your net earnings from self-employment or your SE tax.

How to Pay Self-Employment Tax

To pay SE tax, you must have a social security number (SSN) or an individual taxpayer identification number (TIN) for citizens.

If you never had an SSN, apply for one using Form SS-5, Application for a Social Security Card. You can get this form at any Social Security office or by calling **(800) 772.1213**. You can download the form from the Social Security Online Web site at www.ssa.gov.

The IRS will issue you an ITIN **if you are a nonresident or resident alien** and you do not have and are not eligible to get an SSN. To apply for an ITIN, file **Form W-7**, Application for IRS Individual Taxpayer Identification Number.

Estimated Taxes

Federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. You generally have to make estimated tax payments if you expect to own tax, including SE tax, of \$1000 or more when you file your return. There are two ways to pay as you go: withholding and estimated taxes. If you are a self-employed individual and do not have income tax withheld, you must make estimated tax payments.

Who Must Pay Self-Employment Tax?

You must pay SE tax and file Schedule SE (Form 1040) if either of the following applies:

- You net earnings from self-employment (excluding church employee income) was \$400 or more.
- You had church employee income of \$108.28 or more.

Your net earnings from self-employment are based on your earnings subject to SE tax. Some earnings from employment (certain earnings that are not subject to social security and Medicare taxes) are subject to SE tax.


If you have earnings subject to SE tax, use Schedule SE to figure your net earnings from self-employment. Before you figure your net earnings, you generally need to figure your total earnings subject to SE tax.

Note: The SE tax rules apply no matter how old you are and even if you are already receiving social security or Medicare.

Are You Self-Employed?

You are self-employed if any of the following apply to you:

- You carry on a trade or business as a sole proprietor or an independent contractor.
- You are a member of a partnership that carries on a trade or business.

 You are otherwise in business for yourself.

Trade or business - A trade or business is generally an activity carried on for a livelihood or in good faith to make a profit. The facts and circumstances of each case determine whether or not an activity is a trade or business. The regularity of activities are transactions and the production of income are important elements. You do not need to actually make a profit to be in a trade or business as long as you have a profit motive. You do need, however, to make ongoing efforts to further the interests of your business.

Part-time business - You do not have to carry on regular full-time business activities to be self-employed. Having a part-time business in addition to your regular job or business also may be self-employment.

Example: You are employed full time as an engineer at the local plant. You fix televisions and radios during the weekends. You have your own shop, equipment and tools. You get your customers from advertising and word-of-mouth. You are self-employed as the owner of a part-time repair shop.

Sole proprietor - You are a sole proprietor if you own an unincorporated business by yourself, in most cases. However, if you are the sole member of a domestic limited liability company (LLC), you are not a sole proprietor if you elect to treat the LLC as a corporation. For more information on this election and the tax treatment of a foreign LLC, see Form 8832, Entity Classification Election.

Independent contractor- People such as doctors, dentist, veterinarians, lawyers, accountants, contractors, subcontractors, public stenographers, or auctioneers who are in an independent trade, business or profession in which they offer their services to the general public are generally independent contractors. However, whether these people are independent contractors or employees depends on the facts in each case. The general rule is that an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done. The earnings of a person who is working as an independent contractor are subject to SE tax.

You are not an independent contractor if you perform services that can be controlled by any employer

(what will be done and how it will be done?). This applies even if you are given freedom of action. What matters is that the employer has the legal right to control the details of how the services are performed.

If an employer-employee relationship exists (regardless of what the relationship is called), you are not an independent contractor and your earnings are generally not subjected to SE tax. However, your earnings as an employee may be subjected to SE tax under other rules.

For information in determining whether you are an independent contractor or an employee, refer to the section on Independent Contractors vs. Employees.

For additional information on tax laws for micro enterprises, visit www.irs.gov/businesses.

Business Planning Articles

Market Entry Strategy

Developing an effective market entry strategy is essential to the success of any small, medium or large business, as well as for multi-national corporations. The market entry strategy is the method that will be used to best deliver and distribute your product(s) or service(s) to the customers or clients within your target market. This entails determining within your identified marketing mix, the best approach to take to reach those customers or clients and to build and maintain their loyalty. A steady stream of repeat customers/clients is the goal of all successful businesses.

In identifying an effective market entry strategy, you will need to decide which of the following entry approaches work best for your firm. Keep in mind, however, before selecting a particular strategy you may need to examine each approach carefully to determine which best provides the access your firm needs to reach customers, provide the products and services they want/need, build customer loyalty and generate revenue.

Market entry strategies are commonly used by export firms as a way of breaking into foreign markets. If you are considering entering the export arena, entry strategies that you may want to consider include some of the following:

- Direct sales
- Distributor/agent
- Licensing
- Joint Ventures
- Franchising
- Export Merchant

Direct Sales

There are advantages and disadvantages for each of the above strategies, however. For example, if considering the direct sales approach, the advantages are you control pricing and distribution, and you achieve a higher profit margin because the middleman is eliminated. The downside to this approach is potential sales volume may be lower, credit risks are greater, market penetration may be slower and your company provides all advertising, promotion and customer service assistance.

Distributor/Agent

The distributor or agent typically functions as the importer. In this capacity, the distributor/agent already has established distribution and promotional channels and a customer-base willing to purchase the products or services. Other advantages of this particular approach are: 1) risks are lower, 2) market entry is faster, 3) there is immediate generation of cash flow, 4) promotional materials enter established distribution channels and 5) custom duties are the responsibility of the importing firm.

The disadvantages of this approach are: 1) loss of control over products once items enter the country; 2) agent/distributor problems are not easily resolved; 3) no control over pricing; 4) choosing the wrong distributor or agent may delay entry of products into the market for sale, resulting in slow to sluggish sales or loss of revenue and 5) loss of brand name and reputation.

Licensing

In selecting the licensing approach, the exporting firm will generally enter into a contact agreement with a designated foreign firm to produce, distribute or sell the exporter's products or services as stipulated in the contact. The advantages of such an approach are:

- faster entry into the market;
- faster return on investment and

- virtually, no production, distribution, equipment, facility, overhead, staffing costs or any costs associated with production and distribution of your products or sell of your services.

Some drawbacks in selecting this approach are loss of control over production processes, pricing, hiring/termination of staff and no involvement in the determination or selection of the best strategies for marketing and promoting goods.

Joint Ventures

Joint ventures are another approach firms may use in building overseas markets. Joint ventures offer excellent opportunities to sell in foreign markets with lower risks because you are working in tangent with a partner firm, within the host country that knows the marketplace and its nuances. Partner firms:

- have established distribution channels,
- understand the buying habits of customers in their markets,
- know the media that will best market and promote products/services,
- have effective, established marketing/promotional channels,
- have established contacts with banking or financial institutions, should financing be required and
- have trained/qualified staff to perform day-to-day business/operational tasks, in addition to tasks specific to requirements of the joint venture.

In joint ventures, foreign partners may already have whatever licenses/permits are required, or, at best, these firms know where to apply to obtain the necessary license(s) or permit(s). This eliminates the time it would take staff in your firm to work through the legal/business requirements needed to obtain appropriate licenses or permits. A few major drawbacks are transfer of proprietary technology and business information.

While market entry strategies typically are used by export firms, domestic businesses, including new, expanding, diversifying or spin-off businesses use this approach for entering the marketplace also. Market entry strategies used by U.S.-based firms typically focus on positioning, pricing, servicing and distribution.

Positioning

Positioning your products or services for competitive advantage is part of the process used by business owners to grow their enterprises and enter the marketplace. Positioning entails using strategies that keep your firm in

the forefront of the consumers' minds through advertising/promotions and by providing the product or service they want and are willing to purchase. In advertising and promoting your firm, use strategies that competitors are not using as their unique selling points as these tactics oftentimes may give your business a competitive edge.

Adaptability or the flexibility needed to change tactics as competitors adopt your marketing/promotional strategies is a key variable of positioning and maintaining a competitive edge. For example, if convenience is your unique selling point, then this is the aspect, along with your other strategies, that you will continue to emphasize when promoting your firm. If a competitor adopts convenience as his or her unique selling point, you will need to determine how this change has impacted your firm's competitive advantage. If upon completion of your analysis, you determine that the firm has been adversely impacted, then make the necessary adjustments to regain an advantage, or at best try to recapture the market that was lost. Such actions may entail promoting dependability and convenience as your unique selling features, or identifying and promoting uniquely different selling features that are applicable to your firm, which competitors are not yet using.

Positioning is a marketing technique that you will continuously need to adjust as competitors enter and leave the marketplace.

Pricing

How much consumers are willing to pay for an item or service is an issue most businesses grapple with at some point in time. Pricing a product can be an arduous task, particularly for new firms, because consumers can be unpredictable. If your product or service is priced right, you certainly may gain an advantage over competitors. However, if consumers perceive your product or service to be too cheap or expensive; they will undoubtedly select an item/service that is of comparable quality yet more affordable. Image plays a role in pricing products or services.

Your pricing structure is critical to the success of your business and is determined through market research and financial considerations. A basic marketing strategy is to price within the range between the price ceiling and price floor. The price

ceiling is determined by the market; it is the highest price a consumer will pay for a product or service and is based on perceived value. The price floor is the lowest amount at which you can offer a product or service, meet all your costs and still get your desired profit.

Questions such as these will help in determining prices to contemplate when devising a pricing strategy:

1. What is the competition charging?
2. What is the quality of the product or service you are offering?
3. What is the nature of the demand for your product or service?
4. What is the image you are projecting?

Other avenues for pricing products or services may include approaches such as:

1. Markup on Price
2. Suggested retail price or service costs
3. Competitive position
4. Pricing below competition
5. Pricing above the competition

Remember, the profitable business operates between the price ceiling and price floor.

While positioning and pricing are two techniques domestic-based firms use, there are other market entry techniques firms use to enter the marketplace and help establish a competitive advantage.

Entry Level Jobs Strong by VetJobs

In the February issue of VetJobs, Jobweb reports the chances of getting an entry-level job is very good. The article states that many of the employers who are currently recruiting have indicated that this is the healthiest job market in three years. Overall, according to Job Outlook 2008, employers plan to hire 16% more graduates in 2007-08 than they did in 2006-07. The growing demand for entry-level employees and new graduates is a result of an increased demand for employers' products and services. It's also important to note that many employees are retiring, and other employees are leaving organizations for new opportunities. Employers expect the good job market to continue - or perhaps get better!

Military Retiree Alert by VetJobs

Military retirees need to check their beneficiary information on the reverse side of their Military Retiree Account Statement. Some retirees have reported an

unauthorized beneficiary name change. The Defense Finance and Accounting Service said it has no way of ascertaining whose identity may have been stolen, resulting in a beneficiary change. If this becomes a widespread issue, they most likely will put out at notice. Those retirees that have the wrong beneficiary on their statement should contact DFAS immediately to change their beneficiary, and let them know it was changed without their authorization. The DFAS number is: **1-800-321-1080**.

PROCUREMENT TIPS

CCR Update by GSA's GWAC Office

Central Contractor Registration (CCR) system Update module was updated to release 40.07.3.4. This release includes a realignment of the Corporate Information Page to better define the allowable business types with CCR organization types. This update will require reentry of your CCR organization and business types on your next update or renewal. The new release also allows you to enter multiple NAICS codes for your company and better aligns "Business Types" within CCR with "Organization Types." To locate Release Notes, go to <http://www.bpn.gov/ReleaseNotes>.

CCR is the primary vendor database for the U.S. government. CCR collects, validates, stores and disseminates data in support of agency acquisition missions. Both current and potential federal government vendors are required to register in the CCR to be awarded contracts by the federal government.

CCR validates the vendor information and electronically shares the secure and encrypted data with federal agencies finance offices to facilitate paperless payments through electronic funds transfer (EFT). Additionally, CCR shares the data with federal government procurement and electronic business systems.

Please note that any information provided in your registration may be shared with authorized federal government offices. However, registration does not guarantee business with the federal government.

OTHER WEBSITE RESOURCES

<http://www.irs.gov/newsroom/article/0,,id=97273,00.html>
www.military.com
www.vetjobs.com
www.publicforuminstitute.org
www.commerce.gov
www.hirevetsfirst.gov
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http://www.nvti.cudenver.edu/resources/VETSNET/vol14no2/vnmain_v14n2.htm
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Office of Veterans Business Development

In fiscal year 2007, the Office of Veterans Business Development, U.S. Small Business Administration, through district office outreach, its Veterans Business Outreach Center Program, and a public/private partnership with RecruitMilitary provided assistance to 62,268 veteran, service-disabled veteran small business owners/entrepreneurs, self-employed members of the Reserve and transitioning military personnel.

For information on the programs and services for veterans and Reservists, visit www.sba.gov/VETS or www.sba.gov/reservists.

Veterans We Salute You!